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THE POSSIBLE INFLUENCE OF PRICE ELASTICITY OF DEMAND ON ADVERTISING AND PROMOTION STRATEGY

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The concept of price elasticity of demand is useful for many purposes in marketing work. Perhaps one area which has been overlooked is as a guide to advertising and promotion strategy.

It is well known that from the point of view of economic theory, revenue may be increased by decreasing price for a commodity with elastic demand or decreasing quantity for a commodity with inelastic demand. The only problem with this procedure is that it is difficult to apply for an agricultural product because there is generally little control over industry supply and price.

Instead what we more often have in agriculture is provision for advertising and promotion funds. Can elasticity of demand provide a rough guide for the use of these funds? Possibly it can. To see how it might, consider the ways in which price or quantity control increase revenue. In the case of elastic demand, revenue is increased because of a sharp increase in quantity consumed. In the case of inelastic demand, revenue is increased by the sharply higher price which is paid.

To increase revenue through advertising and promotion perhaps a parallel course of action could be taken. In the case of the good with an elastic demand, consumption might be increased by (1) persuading those who are now buying to purchase more, or (2) persuading those who are not presently buying to start making purchases. In the case of a good with an inelastic demand, the higher price might be obtained by persuading those who are now buying to pay a higher price.

In short, the idea would be to emphasize factors which would (1) increase quantity purchased in the case of a good with elastic demand, and (2) increase price paid in the case of a good with an inelastic demand. The former course of action would probably be more easily done than the latter.1/ But in any case, a different promotion strategy would likely be called for.

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1/ In the case of most agricultural products with an inelastic demand it is difficult to conceive of any particular promotion program which would significantly increase the price paid. In the case of branded goods however, an increase price might be obtained by "selective-demand" advertising (see T. A. Staudt and D. A. Taylor, A Managerial Introduction to Marketing, Prentice Hall, 1965, pp. 400, 401).

In the situation where one had a choice of promoting two products with elastic demand, it would probably be more profitable, other things being equal, to place greater emphasis on promoting the one with the more elastic demand.2/

Possibly this line of thought would be worthy of further consideration.

2/ Another related question might be how to influence elasticity of demand for agricultural products through advertising and promotion. I discussed some of the theoretical aspects of this problem in a previous mimeograph (D-16). Fred Waugh subsequently suggested to me that elasticity might be increased by broad-scale activities as the Plentiful Foods Program or widespread use of low price specials by retail stores.